Cultural Distance and Value Creation of Cross-border M&A: The Moderating Role of Acquirer Characteristics

By

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Abstract

This paper examines the effects of culture and the interaction between cultural distance and salient acquirer characteristics on value creation of acquiring firms based on a sample of 209 firms over the period of 1998-2012. The findings indicate that Chinese acquirer experience wealth gains ranging from 0.45% – 1.49% over a 10 day event window. We find cultural distance to exert a negative influence on value creation of acquirers in the short-and long-term. However, the negative returns are significant only in the short-term but not in the long-term. Further evidence shows that acquirer large size, prior experience and high Tobin's q positively moderate the link between cultural distance and value creation. The results suggest that the effect of culture distance is conditioned by the acquirer size, prior experience and Tobin's q implying that acquirer resources and managerial capabilities are important in dealing with and overcoming cross-border mergers and acquisitions (CBM&A) cultural challenges.

1. Introduction

Studies investigating the antecedents of cross-border mergers and acquisitions (CBM&A) performance have documented the important role of national cultural distance in explaining CBM&A (Stahl and Voigt, 2008; Reus and Lamont, 2009; Chakrabarti et al., 2009; Dikova and Sahib, 2013; Ahern et al., 2015). However, despite numerous studies examining the relationship between cultural issues and CBM&A performance, the results of prior studies have been mixed and controversial. One strand of literature suggests that cultural difference represents a source of risk which impedes integration of the firms involved in the acquisition transactions and negatively affect the acquisition returns (David and Singh, 1994; Datta and Puia, 1995). On the other hand, the competing view indicates that the cultural distance-value creation relationship in CBM&A is more complex (Stahl and Voigt, 2008; Reus and Lamont, 2009). Emphasizing the complex nature of cultural distance, Ghoshal (1987) notes that the mere existence of cultural diversity between two countries or firms does not necessarily mean that it impedes value creation. Rather, cultural differences may create potential for learning and value creation (Reus and Lamont, 2009; Chakrabarti et al., 2009).

Against the backdrop of mixed findings, Reus and Lamont (2009) called for further research to reconcile the conflicting literature streams. Responding to this call, Dikova and Sahib (2013) and Li et al. (2016) examined the moderating role of acquirer prior experience, financial advisor and industry effect in cultural distance-performance nexus. While these studies have made notable contributions to the field, it is important to point out that these studies are limited to one or two acquirer salient characteristics (i.e., prior experience and size) and ignored other equally important acquirer-specific factors such as managerial know-how and competence. Thus, we still have gaps in literature as to how and the extent to which the acquiring firm characteristics can be leveraged to moderate the effects of cultural distance on value creation in emerging market context.

Drawing on the resources-based view, this paper contends that the effects of cultural distance-value creation association cannot be understood in isolation from the resources and capabilities of the acquiring firm such as size, prior experience, managerial know-how and competence. This is because it is argued that strategy models based only on social environment makes unrealistic assumption about firm homogeneity (Das & Teng, 1991). However, firm resources are heterogeneous and performance differences across firms can be explained by the variance in firms' resources and capabilities (Wernerfelt, 1984; Das & Teng, 2000). Moreover, resource-based view posits that resources constitute the basis for the development and implementation of firm strategy (Barney, 1991). Therefore, resources which are internal to the firm interact with external environmental factors such as culture to produce firm returns and increase competitive advantage (Hitt et al., 2001). Indeed, studies have documented the relevance of firm resources and capabilities for succeeding in international markets (Slangen, 2006; Fang et al., 2013). In the context of international acquisitions, Slangen (2006); Stahl and Voigt (2008); and Bauer et al. (2016) argue that acquirer characteristics determine its integrating capabilities which are essential for overcoming cultural impediments associated with CBM&A and consequently value creation. Yet, relatively little attention has been given to the joint effect of cultural distance and acquirer characteristics on value creation in emerging market context. This study attempts to fill this gap.

The purpose of this paper is to extend prior literature by examining the effects of the interaction between cultural distance and salient acquirer characteristics, namely, acquirer size, prior experience of acquirer and acquirer Tobin's q on value creation of acquiring firms from an emerging country. The choice of the above factors is motivated by the fact that these acquirer-specific factors represent important resources and managerial capabilities[1] required

[1] Tobin's q has also been used to explain diverse corporate phenomena including managerial performance organizational performance; and investment opportunities (Lang, Stulz & Walking, 1989; Wernerfelt and Montgomery, 1988; Servaes, 1991).

for CBM&A integration and hence may play a moderating role in creating firm value (see Lang et al., 1991; Servaes, 1991; Moeller, Schlingemann and Stulz, 2004; Singh and Montgomery, 1987 and King et al., 2004). These factors are especially important in emerging market context, where firms entering foreign markets do not only encounter institutional constraints but may lack prior international experience as latecomers and face intense competitions from established players in the international market for corporate control (Deng, 2009). For example, Hayward (2002) argues that prior acquisition experience affects the quality of inferences that are deployed in subsequent acquisitions and may therefore be important for value creation. Similarly, acquiring firm size is associated with the level of resources or scale of economies which may ameliorate the impact of cultural distance and consequently improve value creation (Banerjee and Eckard, 1998). More importantly, acquirer Tobin's q[2] which measures a firm's value and can be interpreted as managerial performance (Lang et al., 1989; Servaes, 1991; Yermack, 1996) may interact with cultural distance to nullify or heighten the risk associated with cultural differences leading to value creation.

This paper therefore extends prior literature by examining the effects of the interaction between cultural distance and salient acquirer characteristics, namely, acquirer size, prior experience of acquirer and acquirer Tobin's q on value creation of acquiring firms from emerging market context. We attempt to achieve the above objective by employing the event study methodology which represents the future expectations of the investors about the performance (Chatterjee et al., 1992). In addition, we explore the impact of culture on long-term returns of the acquirers using buy-and-hold abnormal returns.

[2] Lang, Stulz and Walking (1989: 138) point out that "Tobin q is an increasing function of the quality of a firm's current and anticipated projects under existing management"

The choice of Chinese firms in emerging economy context is ideal to test our hypothesis for the following reasons. As the largest emerging market economy, Chinese firms have been involved in numerous international acquisitions more than any of the top emerging countries such as Russia, India and Brazil over the last decade (UNCTAD, 2015; Du et al., 2016). Moreover, as a former communist country, it is argued that China appears to have greater cultural differences compared to advanced market economies in Europe, Asia and North America (Shimizu et al., 2004; Boateng et al., 2016). The above considerations make China an ideal setting to explore the effects of cultural distance and firm-specific factors on CBM&A performance.

The paper makes two primary contributions to the literature. The paper extends the previous literature on the effects of cultural distance on value creation by drawing attention to an important, yet mostly overlooked variables which may moderate the culture-value creation nexus of CBM&A by emerging market firms. Our results demonstrate that the effects of cultural distance on value creation are predicated on the size, prior experience and managerial performance of the acquiring firm. **In In terms of economic magnitude, acquirer size, prior experience and high Tobin's q help reduce the negative impact of cultural distance by an average of 592.6 million Chinese Yuan representing a 6.79 percentage point increase in firm value**. Thus our results imply that acquirers with small firm size, little or no prior experience and low Tobin's q are more likely to encounter cultural difficulties and liability of foreignness in the international market for corporate control. Second, this study attempts to reconcile the conflicting arguments regarding the effects of culture on value creation of firms from emerging market context. We show that analysing either the effects of cultural distance or firm-specific determinants separately may not provide a full understanding of value creation in CBM&A. Thus the examination of combined effects of cultural distance and acquirer characteristics yield better understanding and reconcile the conflicting literature streams on

culture and value creation of the acquirer firms. This paper therefore provides a useful first step in integrating the disparate literature on informal institutions and acquirer characteristics to shed new light on how acquirer firm resources, managerial capability and culture operate in tandem to improve value creation. Our results add to the theoretical model which suggests that firm resources interact with the social environment to influence performance.

The rest of the paper is structured as follows. The next section reviews the relevant literature and develops the hypotheses of the study. This is followed by an outline of data source and methodology. Section 4 presents the results and discusses the findings of the study. The final section provides a summary of the conclusion and discusses the implications of the study.

2. Literature and Hypothesis development

2.1 Cultural distance, firm resources and value creation

Prior studies indicate that acquisitions generally fail financially or destroy value of acquiring firms (Ravenscraft & Scherer, 1987; Tetenbaum, 1999; Erez-Rein et al., 2004). Yet firms continue to have a huge appetite for international expansion through acquisitions (Du et al., 2016; Boateng et al., 2017). Despite the growing number of studies in emerging country context (Gubbi et al., 2010; Ahern et al., 2015; Li et al., 2016), factors influencing the success or failure of acquisitions remain poorly understood (Du et al., 2016). Research evidence indicates that international expansion through acquisitions engender significant challenges which may diminish the value of the firms from emerging market economies. This is because the institutions in emerging countries are different and underdeveloped and have palpable consequences on firms' internationalisation process (Du & Boateng, 2015; Rui & Yip, 2008). One notable informal institutional challenge is the risk resulting from cultural distance and business practices between the acquiring firm and target firm. National cultural distance, which represents differences in the norms, routines and repertoires for organisational design that are

found in the countries of origin of acquirer and the target firms, have widely recognised to be important for the success of CBM&A (Datta & Puia, 1995; Kogut and Singh, 1988; Morosini et al., 1998). Simmons & Nelson (2001) noted that national cultures influence organisational characteristics, practices and performance. It is therefore unsurprising that a large number of studies have investigated the effects of culture on firm performance over the past three decades.

Despite the extensive research in respect of cultural distance-performance relationship, the results thus far remain mixed and we still do not fully understand the effects of culture on CBM&A. Prior literature offers two contradictory arguments: a positive view and a negative view. The positive view contends that greater cultural distance could increase the likelihood of acquisition success. For example, Page (2007); Morosini et al. (1998) suggest that cultural distance provides firms with benefits of exposure and access to diverse routines and repertoires embedded in unique cultures that were previously unavailable to acquiring firms. Cultural diversity facilitates innovation, provides learning opportunities and promotes new approaches to problem solving thereby increasing the likelihood of successful acquisition performance. Morosini et al. (1998) found a positive and significant impact of cultural distance on performance.

On the other hand, the negative view emphasizes "acquisition cultural risk" (David and Singh, 1994: 251) and that cultural distance poses integration challenges and impedes acquisition success. It is argued that greater national cultural distance between the acquiring and target firms leads to poor acquisition performance. This is because synergy gains in acquisitions require post-acquisition coordination between the employees of acquirer and target firms (Ahern et al., 2015). Cultural differences therefore lead to misunderstanding, mistrust and make post-acquisition coordination and integration more costly and difficult rendering the realisation of synergies less likely. Prominent among researchers who found a negative relation between cultural distance and acquisition performance include Chatterjee et al. (1992); Datta

& Puia (1995); Li et al. (2016). For example, Datta & Puia (1995) and Reus & Lamont (2009) found direct and indirect negative effect of cultural distance on acquisition performance respectively. In fact, studies such as Markides & Ittner (1994); Barkema et al. (1996) found no evidence of positive and negative effect of cultural differences on performance indicating that the results thus far appear mixed and inconclusive. To summarise, studies examining the effects of cultural differences on performance have produced mixed and inclusive results. In this study, we argue that these mixed findings may be, partly, caused by the fact that prior studies on CBM&A value creation tend to focus exclusively on culture and ignore the moderating effects of firm specific resources and capabilities. This study departs from the commonly analysed variables and examines the joint effects of culture and firm-specific characteristics on value creation of acquiring firms.

The examination of the combined effect of culture and firm-specific characteristics is significant in that resource-based view stresses the importance of internal aspects of a firm (Barney, 1991). It is argued that resources, particularly, intangible ones (e.g. experience and managerial skills) are more likely to produce a competitive advantage for a firm because they are often rare and socially complex, thereby making them difficult to imitate (Barney, 1991; Finkelstein & Hambrick, 1996). Indeed, studies in emerging country context such as Deng (2009) and Rui & Yip (2008) have reported that firms' resources and capabilities are important to offset the competitive weaknesses of emerging market firms and increase firm value. The above arguments suggest that firm resources may help firms to overcome challenges of entering overseas market. Reus & Lamont (2009) and Dikova & Sahib (2013) echo similar views and point out that acquirer's resources and capabilities play a moderating role regarding the outcomes of CBM&A. Thus, from this standpoint, resource-based view provides relevant basis for the study of CBM&A as this theory emphasises value maximisation through the use of firm resources (Das & Teng, 1991).

2.2 Hypotheses: The moderating effect of acquiring firm characteristics

Prior literature have reported that cultural values impact on financial outcomes in the markets worldwide (Guiso et al., 2008; Chui et al., 2010). For example, Ahern et al. (2015) contend that cultural differences are particularly important in CBM&A because such transactions involve people with conflicting values working with each other to integrate and improve firm value. A number of researchers point out that synergy gains in CBM&A require co-ordination and communication between employees of the acquiring and target firms. Poor co-ordination serves to impede learning, knowledge transfer thereby leading to higher cost of information acquisition with deleterious effect on acquisition outcomes (Chatterjee et al., 1992; Datta and Puia, 1995; Li et al., 2016; Ahern et al., 2015). However, it may be argued that cultural differences may be influenced by firm characteristics (Hayward, 2002). Researchers such as Caves (1971); and Rugman & Verbeke (1992) argue that firm-specific characteristics constitute an important resource and provide stimulus for firm success in foreign markets. This argument is consistent with the resource-based view which emphasises value maximisation through pooling and utilising valuable resources via M&As. For example, it is argue that bigger firms tend to have more resources such as financial, marketing and personal resources and better absorptive capability to overcome challenges and costs associated with large cultural distance which may impede the realisation of potential synergies and value creation (Reus and Lamont, 2009; and Li et al., 2016). Other studies including Bernard & Jensen (2004); Li et al. (2016) and King et al. (2004) point out that bigger size leads to the economies of scale and scope in the integration process of CBM&A, and thus results in value creation for acquiring firms. Thus we hypothesize that:

H1: Large acquirer size moderates the link between cultural distance and value creation of acquiring firms.

In CBM&A, Stahl & Voigt (2005), Reus & Lamont (2009) and Li et al. (2016) note that, acquiring firms are expected to absorb the resources and capabilities of targets which are embedded in different national cultures from their own. Haspeslagh & Jemison (1991), Hofstede et al. (2010), and Li et al. (2016) therefore point out that acquiring firms face complex national cultural challenges and problems, especially, when it is done in the international context. Buono et al. (1985) conducted a study on the impact of culture on M&As transactions and found that large culture distance tends to lead to uncomfortable feelings and hostility in CBM&A. Majidi (2007) shares this point of view, further suggesting that the increasing trends of CBM&A between developed and developing economies which tend to have larger national cultural differences may lead to less communication and mistrust.

Scholars argue that one way to alleviate the effect of large cultural distance is through prior experience of the acquirer. It is thus argued that acquirer prior experience may yield rich inferences about causes of acquisition performance (McGrath, 2001; Hayward, 2002) hence it may facilitate improvement in subsequent acquisition performance. In other words, experience allows firms to become efficient and helps acquiring firms to improve its ability to integrate the resources of the combined firm. However, inexperience firms may not understand the complexities of acquisition (Nadolska & Barkema, 2007). Johanson & Vahlne (1977) echo similar view and suggest that firms develop skills at controlling international operations through experience. For example, Hayward (2002) and Hitt et al. (2001) note that prior international acquisition experience of acquiring firm may facilitate both the identification and integration of acquiring firms' resources and capabilities which lead to value creation. With a higher level of prior experience, acquiring firms are likely to be less susceptible to cultural shocks and hence increase in firm value (Du & Boateng, 2015). Thus we hypothesize that

H2: *Level of acquirer prior experience positively moderates the link between cultural distance and value creation.*

Resource based view suggests that firm resources are of various types which include human capital (Barney, 1991). The studies of Hambrick & Mason (1984); and Finkelstein & Hambrick (1996) emphasize the importance of human capital in firm performance and argue that organisations are reflections of their top managers. Tihanyi et al. (2000) echo similar views and indicate that, managers represent a unique organisational resource and constitute an important ingredient for a firm's performance and competitive advantage. Tobin's q represents an increasing function of the quality of a firm's current and anticipated project under existing management (Lang et al., 1989) hence the q constitutes managerial resource and capability. It is therefore argued that if management performance is a major determinant of a firm's q ratio, then the total gains from M&A are associated with the performance of the bidder management. Lang et al. (1991) and Servaes (1991) found high q bidders to have higher announcement abnormal returns for acquiring firms while acquirers with low q ratios have significant negative returns. We expect a higher Tobin q of the acquiring firm to reduce the deleterious impact of cultural risk on firm value. Thus we put forward the following hypothesis:

H3: A higher Tobin's Q positively moderates the link between cultural distance and value creation.

3. Data and Methodology

3.1 Data Source

Our data is derived from several sources. The data of CBM&A is collected from Chinese Stock Market & Accounting Research (CSMAR) for the 1998-2012 period. CSMAR is a premier Chinese database jointly produced by the University of Hong-Kong and GTA with CBM&A data starting from 1998. In addition to the identities of parties involved, CSMAR

database provides details on firm characteristics and the relevant transaction dates (announcement and completion). We derive culture data from the National Culture Dimensions provided by Hofstede. The National Culture Dimensions (Hofstede, 2010) is one of the most frequently used measures of culture and was initially based on surveys of employees working for IBM between 1967 and 1973 and has been refined and used in cultural studies since then (Davis & Ruhe, 2003).

3.2 **Sample Selection**

The sample for our analysis begins with Chinese listed firms which carried out and completed CBM&A transactions from January 1998 to December 2012. Our initial sample consists of 397 CBM&A bids by Chinese firms. For inclusion in the final sample, the following restrictions were imposed on the acquiring firms: i) The acquirer must be listed in Shanghai or Shenzhen Stock Exchanges under A share which provides data on CBM&As in China and the company shares must be actively traded; ii) Neither the acquirer nor the target should be a financial firm. Consequently, all the financial firms are excluded from the sample due to the different nature of assets and liabilities, financial reporting system and unique regulations which may influence the performance and thus lead to biased result; iii) The acquirer must not be involved in multiple acquisitions within three months to separate effects of each acquisition properly; iv) There should not be a contaminating announcement within ten business days before or after the announcement. The reason is that other events around acquisition may also influence the stock price which may lead to biased result of acquisition performance; v) The acquirer must acquire between 10-100 percent of the target in line with the definition of the US Department of Commerce which indicates that acquiring a stake of less than 10% is classified as a portfolio investment and such investors do not participate in the management of the firm; vi) The share price data and accounting information of acquirer must be available on CSMAR database. The

imposition of these restrictions led to the final sample of 209 cross-border acquisitions by Chinese bidders.

3.3 Estimation period and Acquirer Returns

The first issue examined in this paper is whether acquiring firms earn abnormal returns on the announcement of M&A. The study therefore uses the risk and market adjusted variant of event study methodology called market model. Cumulative abnormal returns (CARs) measures the market reaction to M&A announcement. A firm's CAR is defined as the sum of its abnormal returns over a 5-day event window (t -2, t +2)[3]. The event date is the first announcement date of the takeover by successful bidder. Abnormal returns are defined as the firm's actual stock returns less the return that a market model predicts[4]. The estimation period used in our empirical analysis is (t-240, t-21); that is, 240 trading days before the takeover announcement date, until 21 trading days prior to the takeover announcement date, where (t = 0) is the takeover announcement date. In order to address thin and non-synchronous trading concerns and further test the robustness of our results, we also calculate abnormal returns using the market adjusted returns model. The results appear similar to those reported.

Table 1 presents the results of CARs using three relatively short event windows (-1, 1; -2, 2) and two relatively long event windows (-5, 5; -10, 10). For all 4 event windows, the results show that the announcement of CBM&A by Chinese firms creates value for Chinese acquirers. Positive returns for all 4 event windows range from 0.45% – 1.49% with all the returns significant at 1% level indicating that Chinese CBM&A general economic benefits. The results appear consistent with those reported by Boateng et al. (2008); Du and Boateng (2015) in the context of China and that of Gubbi et al. (2010) in India. The results that Chinese

[3] The results are robust to alternative short-event windows of (-1, +1); (-2, +2); (-10, +10)
[4] Market return is proxied by the "Shanghai composite return"

acquiring firms create value may be explained by the potential benefits of internationalisation such as diversification; access to overseas markets and strategic resources which Chinese firms lack. Another plausible explanation may be the Chinese government "go abroad" strategy that encourages and provides incentives such as cheaper source of finance to firms expanding to overseas countries. According to Du & Boateng (2015), such support tends to generate positive reaction from investors and the market regarding the future prospects of the firms and their values.

[Insert Table 1 Here]

3.4. The Model

The main aim of this paper is to investigate the combined effects of cultural distance and selected acquiring firm characteristics on value creation. Our multiple regression model is given as follows:

$$CAR(-2,2) = \beta_0 + \beta_1 FirmCh + \beta_2 CulDis + \beta_3 Interactions + \sum_{t=1}^{n} \beta_4 Controls + \varepsilon_{it} \quad (1)$$

Where CAR (-2, 2) is cumulative abnormal returns for 5-day event window, FirmCh refers to selected acquiring firm variables, namely, acquirer size, acquirer prior experience and acquirer Tobin q; CulDis refers to cultural distance; Interactions refer to the interaction variables between cultural distance and acquirer characteristics, namely, CulDis*acquirer size; CulDis*experience; and CulDis*Tobin's q.

3.5 Variables Measurement

Dependent Variable (CARs)

We employ the stock market reaction to the announcement as reflected in the firm's share price movement around the announcement of the CBM&A event. We chose this measure of performance for the following reasons: i) it is widely accepted in finance literature that the goal of a firm is to maximise the wealth of its shareholders, which is measured by the stock price. As a result, prior studies in finance and strategic management have extensively used market reaction in M&A studies (see Delong, 2001; McGee et al., 2008; Sudarsanam and Mahate, 2003). Importantly, prior studies involving cultural dimensions such as Datta and Puia (1995); Aybar and Ficci (2009); Du & Boateng (2015) have also employed bidder firm's stock market returns thereby making our results comparable**.** ii) Capital market theory indicates that share prices after acquisition announcement incorporate both financial and strategic information including the effects of cultural differences when estimating future consolidation cost and financial impact on acquisitions (Fama, 1970; Chatterjee et al., 1992). Consequently, share prices which reflect investors' expectations of future firm earnings should respond appropriately to acquisition announcements and; iii) According to Cording et al. (2008) share price movement is relatively unbiased compared to other measures and invariant to differences in accounting policies across nations.

This measure of performance is therefore preferred to longer term performance as this measure is more likely to measure the effect of the focal acquisition rather than being confounded by other subsequent acquisitions that were completed later. More importantly, Haleblian et al. (2006) Kale et al. (2002) note that share price movement has a better predictive value than other objective measures, such as profitability, because it is an ex-ante firm value measure that has been found to correlate with ex-post firm value. We measure the M&A firm

value of Chinese acquirers using the standardised cumulative abnormal returns (SCARs) for event window (-2, 2).

3.6 Independent Variables

Following previous studies (e.g. Slangen and van Tulder, 2009; Du and Boateng, 2015), we measured cultural distance by utilising the difference in country scores of each of Hofstede (1980) four dimensions of national culture, namely, uncertainty avoidance, power distance, individualism, and masculinity. We measured each target country through a Euclidean version of the Kogut and Singh (1988) index. Unlike the Kogut and Singh index, which assumes that all of the cultural dimensions are equally important, the Euclidean version relaxes this assumption (Shenkar, 2001). We compute the cultural distance as follows:

$$CD_j = \sqrt{\sum_{i=1}^{4}\left(\frac{(Iij - I_{ic})^2}{V_i}\right)} \qquad (2)$$

Where CD_j is the cultural distance between country j and China, I_{ij} is country j's score on the ith cultural dimension, I_{iC} is the score of China on this dimension, and V_i is the variance of the score of the dimension. Acquirer firm size is measure as a log of total assets (Chinese Yuan) for the financial year ending immediately before the year of acquisition announcement. Prior experience of a Chinese acquirer is measured as the number of prior foreign acquisitions made at the time of purchase. Acquirer Tobin's Q is defined as a market value of equity plus book value of debt over the sum of book value of equity plus book value of debt prior to the bid, measures a bidder's managerial performance (Servaes, 1991).

3.7 Control Variables

Following the M&A literature, several control measures are included in the regression model. Return on Asset (ROA): It is argued that highly profitable firms are more likely to invest abroad, as they possess better financial resources. ROA is measured as a ratio of net income after taxes to the average total assets at book value. Deal size: Acquiring large target gives the acquiring firm's managers greater power, more reputation, higher salary and social recognition not to mention economies of scale and scope (Firth, 1980). Therefore, large deal size may be a source of empire building. Deal size is measured as a log of the amount paid for the target in Chinese Yuan. Relative size of acquirer and target constitutes an important determinant of the extent of takeover gains and how they are shared between the acquirer and target (Travlos, 1987). Acquisition relatedness may create market power for the acquiring firm by increasing the absolute size and breadth of the firm (Singh and Montgomery, 1987) and enhance a firm value through economies of scale. We measure firm relatedness by a dummy variable taking the value of one if acquirer and target are in similar business and zero if otherwise. We also control geographical origin as prior studies suggest that regional domicile has impact on value creation (Aybar & Ficci, 2009). Large cash holding raises agency problems in that managers may invest unproductively (Jensen, 1986). We expect cash holding of acquirer to affect the acquirer returns. Cash holding is measured as the ratio of cash and cash equivalents to total assets. Acquisitions in different regions may also explain the differences in wealth effects because of the diversification potential between regions (Kiymaz, 2004). A dummy variable taking a value of one, if acquisition takes place in Asia, zero, if otherwise. A high level of leverage may impose a budget constraint on the acquirer's ability to raise sufficient debt to finance the acquisition. Conversely, a low debt ratio may improve the likelihood of raising sufficient debt to pay for the acquisition. We measure the leverage ratio as total debt divided by the total book value of assets. Transaction cost literature suggests that using a common

language is likely to lower cost as one language is used for intercompany communications (Hisey and Caves, 1985). A dummy variable, which takes a value of one if the acquirer and the target use Mandarin as their language, and zero, if otherwise. Consistent to previous studies, we also control state ownership, cash payment and price earnings ratio. Risky firms tend to have a high default risk and are therefore vulnerable to external shocks, therefore we control acquirer beta. The summary of how the independent variables are measured is provided in appendix 1.

4. Results

4.1 Summary statistics

Table 2 summarises the descriptive statistics relating to our both independent and dependent variables. The mean of the cultural distance between home and host countries is 2.122, suggesting that the target countries differ in terms of the culture from China. The acquirer size has a mean of 15.39 suggesting that Chinese firms involved in CBM&A activities are large in terms of size. Regarding the Tobin's Q, the mean score across the 543 observations is 1.747 whilst the 75^{th} percentile is 1.960

[Insert Table 2 Here]

The correlation matrix summarised in Table 3 shows that correlations between the independent variables are low and exhibit no serious multicollinearity issues. A further test using VIF procedure confirms that multicollinearity appears not to be a problem in this study as the average variance inflation factor for each variable is less than 10. Standard errors were adjusted for heteroscedasticity and clustered by firm and year.

[Insert Table 3 Here]

4.2 Baseline Regression Results

Before testing our main hypotheses (*H1 – H3*), we conducted a baseline tests on the link between the cultural distance, selected acquirer characteristics, and the control variables and value creation of acquiring firms. Our baseline results reported in Table 4 indicate that cultural distance has a negative and significant influence on acquirer returns suggesting that national cultural distance reduces firm value of foreign acquiring firms. The findings appear to support those studies which view large cultural distance as a source of risk which negatively affect firm value (Datta & Puia 1995; Ahern et al., 2015; Li et al., 2016). In terms of the selected acquirer characteristics, we find acquirer size to exert a negative and significant influence on the value creation of the acquirer firms. The results confirm the findings of Moeller et al. (2004) and Alexandridis et al. (2011) who found acquirer size to be negatively related to acquisition performance. However, we find the acquirer's prior experience and Tobin q to be positive but statistically insignificant. In considering the control variables, we find leverage to have a negative and significant influence on firm value while deal size has a positive and significant influence on value creation.

(Insert Table 4 Here)

4.3 Cultural distance and value creation: The moderating role of Acquirer characteristics

Table 5 reports the effects of cultural distance and the interaction between cultural distance and the acquiring firm characteristics. Consistent with the results in Table 4, Models 1-3 in Table

5 confirm that cultural distance has a negative and significant effect on the value creation of acquirers. Following the usual practice of moderated regression (see Peng and Jiang, 2010), we next introduce interactions between cultural distance and selected acquirer characteristics successively, (i.e., CulDis*size; CulDis*experience; and CulDis*Tobin's q), into our regression analysis. After the inclusion of the interactions, the negative and significant effect of cultural distance becomes positive and significant[5] in Models 1-3 suggesting that the interaction reverses the negative effect of cultural distance on value creation. This means the selected firm characteristics exert stronger effect than culture on value creation. Specifically, we find coefficients for the three interactive variables (i.e., *CulDis*size* ($\beta = 0.059$; $p<0.05$) *CulDis*Experience ($\beta= 0.071$; $p<0.05$); and CulDis*Tobin's q ($\beta= 0.3799$; $p<0.05$*) to be positive and significant. Thus, the results suggest that acquirer size, prior experience, and the acquirer's Tobin q interact with cultural distance to create value for the acquiring firms, and therefore, Hypotheses 1, 2 and 3 are supported. The results that large firm positively moderates the link between cultural distance and value creation may be explained by the fact that, large firms have more resources to overcome the problems associated with cultural distance. Regarding the interaction between cultural distance and prior experience, Model 2 of Table 4 shows that prior experience positively moderates the relationship between cultural distance and value creation. This finding suggests that more experienced acquirers are more skilful at resolving cultural challenges associated with acquisitions thereby increasing firm value. The results render some support to the findings of Dikova and Sahib (2013). We also document that acquirer Tobin's q positively moderates the cultural distance and CBM&A value creation suggesting that well-managed acquirers tend to overcome cultural challenges associated with

[5] Given that the coefficients of the three interaction terms in Table 5 are all positive, we calculated that the net/marginal effects of CulDis*size; CulDis*experience; and CulDis*Tobin's q. For CulDis*size, we compute the net effect as follows: (0.059 x 15.394) + (-0.066) =0.842246 (net effect); 0.059 is conditional effect from interaction between size and cultural distance; -0.066 is unconditional negative effect of cultural distance; and 15.394 is the mean value. The computation of net effects and thresholds are consistent with prior literature (Brambor et al., 2005; Boateng et al., 2018).

CBM&A. Taken together, the results indicate that acquirer size; prior experience and Tobin q (i.e., proxies for acquirer resources and managerial performance and competence respectively) positively moderate the effect of cultural distance on value creation of CBM&A. Thus our results indicate the moderating effects of selected acquirer characteristics appear to exert a stronger influence than the impact of cultural distance on value creation. **In terms of economic magnitude, acquirer size, prior experience and high Tobin's q help to reduce the negative impact of cultural distance by an average of 592.6 million Chinese Yuan representing a 6.79 percentage point increase in firm value**.

[Insert Table 5 Here]

Robustness Check

To check the robustness of our regression models, we employ several additional specifications to rule out alternative explanations. First, we used sales and number of employees as proxies for acquirer size and the results reported in Table 6 remain unchanged. Second, we replaced CAR (-2, 2) with CAR (-5, 5), the results reported in Table 7 are remain similar to results documented in Table 5

[Insert Tables 6 & 7 here]

Alternative Estimation: Buy and Hold Abnormal Returns (BHAR)

In order to find out whether cultural differences may influence the long term performance of the acquiring firms, we also employed buy-and-hold abnormal return. BHAR assumes that

investors buy firms' shares and hold over a period of time, for example, 12 or 36 months. As Barber and Lyon (1997) pointed out, the advantage of the BHAR is to take into account the experience of the investor through the compounding of returns which makes the method more suitable to examine long-term financial performance. We calculate BHAR as follows:

The return of event firm:

$$R = \prod(1 + R_{it}) - 1 \qquad (1)$$

Where R_{it} is the monthly return data from CSMAR.

$$R_{RE} = \sum_{i=1}^{n_s} \frac{[\prod_{t=s}^{s+t}(1 + R_{it})] - 1}{n_s} \qquad (2)$$

Where s is the beginning period, t is the period of investment (in months), R_{it} is the return on security i in month t, and n_s is the number of securities traded in months, the beginning period for the return calculation.

Buy and Hold Abnormal Return:

$$BHAR = R - R_{RE} \qquad (3)$$

Where R is prior event 12-36 months and post-event 12-60 months buy and hold returns for sample firms, and R_{RE} is prior event 12-36 months and post-event 12-60 months buy and hold returns of benchmark portfolios.

Through the above equation, we measure the 12 months BHAR as the difference between the BHAR of the acquirer and BHAR of the appropriate size and book-to- market value. The post event BHAR and the effects of culture on long-term performance of the acquiring firms are reported in Appendix 2. As the Table shows the long-term returns for 12 – 60 months have

negative signs suggesting that acquirers do generate negative and insignificant returns in the long-term.

Regarding the impact of culture on long-term returns, Table 8 documents that cultural distance exert a negative but insignificant effect on the returns of acquirers. One plausible explanation may be that, in the long-term, cultural challenges may be overcome as the company employs people in the host country. This is because these employees may be familiar with the country's culture or may learn more about the country's culture and adjust appropriately in the long-term. Similarly, if the company employs nationals of the target country, culture challenges may less severe. Moreover, we believe that culture adds costs or affect performance at the integrating stage.

[Insert Table 8 Here]

5. Conclusion and Implications

The role of national cultural distance in explaining CBM&A has been examined by a number of researchers (Stahl and Voigt, 2008; Reus and Lamont, 2009; Chakrabarti et al., 2009; Dikova and Sahib, 2013; Ahern et al., 2015). However, despite attempts to find a coherent explanation for culture - acquisition performance relationship, the results have been mixed and inconclusive. Thus, the mixed results suggest that the commonly analysed variables have failed to provide full understanding CBM&A value creation. In this study, we contend that acquirer resources and integrating capabilities and their interaction with cultural variables may provide a better understanding of acquisition performance. Therefore, we examine the association between cultural distance and value creation, and further explore whether salient acquirer characteristics

moderate the cultural distance-value creation nexus of acquiring firms from emerging market context.

Using a sample of 209 acquisition announcements during the 1998-2012 period, the following findings are documented. First, this study finds that CBM&A from emerging countries create value for the acquiring firms. The results indicate that, on average, the Chinese acquirers engaged in CBM&A enjoy significant gains ranging from 0.45% – 1.49% from the day of announcement to the next 10 days. The findings are in line with previous studies such as Boateng et al. (2008); Du & Boateng (2015) in the context of China and Gubbi et al. (2010) in India. Regarding the factors influencing the value creation, we document that cultural differences between the acquirer firm and the target firm negatively impact on value creation of the acquirer in both the short-and-long-term. However, the negative impact appears not to be significant on the long-term value. An important conclusion to be drawn here is that cultural distance is important in the short-term; however, over a longer period of time, this factor appears irrelevant, at least for stock returns[6]. Regarding the effect of interaction between cultural distance and acquirer characteristics, we find the interactions to have positive and significant effect on value creation in the short-term.

Our study has several implications for managers and policy makers. First, the results of this study show cultural differences between the acquiring firm and the target firm reduces shareholder value. However, the extent of the negative effect of culture distance is conditioned by the acquirer characteristics such as size, prior experience and Tobin's q. This implies acquirer resources and managerial capabilities are important in dealing and overcoming CBM&A cultural challenges which negatively affect performance of culturally different CBM&A. More specifically, the results imply that large acquirers and acquirers with high level

[6] We thank the reviewer for this suggestion.

of experience are more likely to have both tangible and intangible resources to overcome cultural problems and create value for acquirers. Another important implication from the results of this study is that, managerial performance and capability is a key to overcoming cultural challenges in CBM&A. Lastly, our results indicate that culture has effect on value creation. Policy makers should therefore not focus only on corporate governance reforms but should also engage civil society, and businesses to take an active part in bringing about changes in culture that affect value creation of firms in their respective countries.

Despite the interesting findings of this study, it is pertinent to point out that our study is not without limitations. Our study is based on short-term performance (event study) which is based on the assumption of semi-strong form of efficiency of stock markets. It may be possible that the value implications of such a complex strategic investment may not be fully understood by the stock market participants and the results may thus be prone to heuristic biases. Second, Tobin q has been employed extensively to measure managerial and board level ability and performance (see Lang et al., 1989; Yermack, 1996), however, due to lack of data in Chinese context we could not use other measures of managerial ability. Despite these limitations, we believe our results demonstrate the importance of culture in CBM&A by providing an alternative and valuable view on moderators of the relationship between cultural distance and CBM&A performance. Future studies should examine culture-acquisition performance and the moderating role of acquirer characteristics in a cross-country study employing other measures of managerial ability to further enhance our understanding on culture-performance nexus.

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Table 1: Cumulative Abnormal Returns for CBM&A Acquirers

Event Window	CAR (%)	Z-statistics	P-value
CAR (-10,10)	1.486	6.478	0.000
CAR (-5,5)	1.180	5.550	0.000
CAR (-2,2)	0.741	6.213	0.000
CAR (-1,1)	0.445	5.128	0.000

This table presents the cumulative abnormal returns (CARs) of Chinese cross-border M&A over 1998-2012 sample periods. CARs are measured using daily excess returns during various event windows.

Table 2: Descriptive Statistics

Variables	Mean	SD	P25	P50	P75
CulDis	2.122	1.442	0.788	1.348	3.709
Acquirer Size	15.394	1.137	14.608	15.28	16.019
Leverage	0.477	0.230	0.310	0.473	0.637
Tobin Q	1.747	1.010	1.159	1.446	1.960
Relative Size	0.099	0.166	0.018	0.038	0.104
Deal Size (million)	627	1660	40	107	349
Cash holding %	17.927	13.836	7.910	14.120	23.470
Acquirer ROA	0.059	0.067	0.030	0.059	0.087
Acquirer PE	58.247	105.515	16.309	32.05	60.439
Acquirer Beta	0.125	0.339	-0.072	0.042	0.240
SOE Dummy	0.225	0.418	0.000	0.000	0.000
Experience	0.357	0.48	0.000	0.000	1.000
Relatedness	0.439	0.497	0.000	0.000	1.000
Asia Dummy	0.597	0.491	0.000	1.000	1.000
Language Dummy	0.559	0.497	0.000	1.000	1.000
CashPay	0.896	0.305	1.000	1.000	1.000

This table reports the mean, standard deviations, 25th percentile, median, 75th percentile of acquirer and deal characteristics. See Appendix for the detailed definition of variables.

Table 3: Correlation Matrix

	1	2	3	4	5	6	7	8
CulDis	1.000							
Acquirer Size	0.081	1.000						
Leverage	0.094	0.149*	1.000					
Tobin Q	-0.113	0.083	-0.090	1.000				
Relative Size	0.039	0.199**	-0.248***	0.112	1.000			
Deal Size (million)	-0.007	0.232***	-0.104	0.181**	0.250***	1.000		
Cash holding %	0.004	-0.081	-0.076	0.065	-0.073	-0.035	1.000	
Acquirer ROA	-0.115	-0.008	-0.103	-0.006	-0.088	0.032	0.051	1.000
Acquirer PE	0.048	-0.108	0.113	0.026	0.048	-0.086	0.090	-0.022
Acquirer Beta	-0.028	0.172*	-0.050	-0.032	0.032	-0.004	-0.183**	-0.015
SOE Dummy	-0.064	0.096	0.053	0.098	0.029	0.048	0.052	-0.145*
Experience	0.055	0.530***	0.329***	-0.047	-0.062	0.059	-0.066	-0.067
Relatedness	0.012	0.195**	-0.029	0.102	0.105	0.092	0.010	-0.152*
Asia Dummy	-0.012	-0.227***	0.099	0.003	-0.099	-0.127	0.116	0.013
Language Dummy	-0.083	-0.191**	0.120	-0.036	-0.135	-0.089	0.118	0.047
CashPay	-0.011	-0.011	0.084	0.068	-0.044	0.019	-0.001	0.070

	9	10	11	12	13	14	15	16
Acquirer PE	1.000							
Acquirer Beta	-0.200**	1.000						
SOE Dummy	0.003	-0.063	1.000					
Experience	-0.060	0.112	0.402***	1.000				
Relatedness	0.053	0.016	0.196**	0.228***	1.000			
Asia Dummy	0.147*	-0.265***	-0.136*	-0.211**	-0.147*	1.000		
Language Dummy	0.106	-0.234***	-0.065	-0.160*	-0.194**	0.816***	1.000	
CashPay	-0.019	0.134	-0.142*	-0.030	-0.221**	-0.028	-0.058	1.000

This table reports the correlation matrix of key variables. Significant at the 1% (***), 5% (**), 10% (*). See Appendix for the detailed definition of variables.

Table 4: Baseline Regression: Culture distance and CBM&A Value Creation

	CAR(-2, 2)	CAR(-5, 5)
CulDis	-0.047***	-0.183***
	(0.005)	(0.005)
Acquirer Size	-0.022***	-0.120***
	(0.007)	(0.000)
Leverage	-0.058**	-0.380***
	(0.019)	(0.000)
Tobin Q	-0.002	-0.021
	(0.493)	(0.387)
Cash holding	0.005	-0.018
	(0.641)	(0.758)
ROA	-0.146	0.442**
	(0.276)	(0.015)
Acquirer PE	0.000	-0.000
	(0.317)	(0.819)
Acquirer Beta	-0.040*	-0.045
	(0.090)	(0.615)
SOE (0/1)	0.008	0.089
	(0.568)	(0.179)
Experience	-0.006	-0.049
	(0.556)	(0.116)
Relative Size	0.012	-0.023
	(0.145)	(0.508)
Deal Size	0.000*	0.000
	(0.067)	(0.551)
Relatedness	0.009	-0.053
	(0.552)	(0.346)
Asia Dummy	0.008	-0.113
	(0.682)	(0.157)
Language Dummy	0.003	-0.015
	(0.846)	(0.891)
CashPay (0/1)	-0.024**	-0.023
	(0.025)	(0.865)
Intercepts	0.428***	1.826***
	(0.002)	(0.001)
N	209	201
adj. R-sq	0.187	0.090
Year Dummy	Y	Y
Ind Dummy	Y	Y

This table presents results of the effects of culture distance, acquirer and deal-specific characteristics on value creation of Chinese cross-border M&As. The dependent variable is acquirer CAR(-2,2) & CAR(-5,5). Variables are defined in Appendix. All regressions control for year and industry fixed effects. The values reported in parentheses are standard errors adjusted for heteroscedasticity and clustered by firm and year. Significant at the 1% (***), 5% (**), and 1% (*) respectively.

Table 5: Culture distance and value creation: Moderating role of acquirer characteristics

	Model 1	Model 2	Model 3
CulDis	-0.066***	-0.064***	-0.173*
	(0.002)	(0.002)	(0.083)
CulDis*Size (H1)	0.059***		
	(0.002)		
CulDis*Experience (H2)		0.068**	
		(0.017)	
CulDis*Tobin Q (H3)			0.327***
			(0.006)
Acquirer Size	-0.050***	-0.021***	-0.025
	(0.003)	(0.009)	(0.729)
Leverage	-0.036	-0.050**	-0.052
	(0.107)	(0.035)	(0.753)
Tobin Q	-0.006	-0.001	-0.329***
	(0.343)	(0.777)	(0.000)
Cash holding	0.002	0.004	-0.019
	(0.850)	(0.724)	(0.735)
ROA	-0.175	-0.141	0.065
	(0.205)	(0.297)	(0.934)
Acquirer PE	0.000	0.000	0.000
	(0.622)	(0.302)	(0.469)
Acquirer Beta	-0.042*	-0.043*	-0.091
	(0.095)	(0.070)	(0.293)
SOE (0/1)	0.009	0.009	0.181***
	(0.433)	(0.520)	(0.009)
Experience	-0.005	-0.027	0.069
	(0.703)	(0.342)	(0.348)
Relative Size	0.015**	0.010	0.027
	(0.040)	(0.251)	(0.568)
Deal Size	0.000	0.000*	0.000
	(0.409)	(0.098)	(0.536)
Relatedness	0.003	0.008	-0.019
	(0.878)	(0.552)	(0.759)
Asia Dummy	0.014	0.004	0.033
	(0.521)	(0.851)	(0.840)
Language Dummy	-0.001	0.010	0.125
	(0.948)	(0.542)	(0.440)
CashPay (0/1)	-0.025*	-0.014	-0.023
	(0.084)	(0.436)	(0.802)
Intercepts	0.119**	0.405***	0.612
	(0.025)	(0.005)	(0.543)
N	208	209	201
Adjusted R	0.184	0.193	0.043
Year Dummy	Y	Y	Y
Industry Dummy	Y	Y	Y

This table presents results of the effects of interactions between culture distance and selected firm-specific variables on value creation of Chinese cross-border M&As. The dependent variable is acquirer CAR(-2,2). Variables are defined in Appendix. All regressions control for year and industry fixed effects. The values reported in parentheses are standard errors adjusted for heteroscedasticity and clustered by firm and year. Significant at the 1% (***), 5% (**), and 1% (*) respectively.

Table 6: Robustness Check

	CAR(-2, 2)	CAR(-2, 2)
CulDis	-0.045**	-0.047**
	(0.013)	(0.010)
Log of Sales	-0.006***	
	(0.002)	
Employees		-0.003
		(0.606)
Leverage	-0.078**	-0.070*
	(0.041)	(0.066)
Tobin Q	-0.001	-0.002
	(0.806)	(0.611)
Cash holding	-0.001	-0.000
	(0.934)	(0.972)
ROA	-0.191	-0.188
	(0.126)	(0.145)
Acquirer PE	0.000	0.000
	(0.359)	(0.364)
Acquirer Beta	-0.049**	-0.047*
	(0.048)	(0.057)
SOE (0/1)	0.010	0.010
	(0.509)	(0.501)
Experience	-0.010	-0.007
	(0.201)	(0.427)
Relative Size	0.016*	0.016*
	(0.081)	(0.063)
Deal Size	0.000*	0.000
	(0.067)	(0.587)
Relatedness	0.009	0.002
	(0.552)	(0.920)
Asia Dummy	0.008	0.020
	(0.682)	(0.324)
Language Dummy	0.003	-0.005
	(0.846)	(0.793)
CashPay (0/1)	-0.024**	-0.021*
	(0.025)	(0.098)
Intercepts	0.428***	0.109*
	(0.002)	(0.056)
N	209	208
adj. R-sq	0.187	0.163
Year Dummy	Y	Y
Ind Dummy	Y	Y

This table presents results of the effects of culture distance, acquirer and deal-specific characteristics on value creation of Chinese CBM&A employing sales and number of employees as proxies for size. The dependent variable is acquirer CAR(-2,2). All regressions control for year and industry fixed effects. The values reported in parentheses are standard errors adjusted for heteroscedasticity and clustered by firm and year. Significant at the 1% (***), 5% (**), and 1% (*) respectively

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Table 7: Robustness Check: Dependent Variable: (CAR -5, 5)

	Model 1	Model 2	Model 3
CulDis	-0.273**	-0.063***	-0.203**
	(0.002)	(0.002)	(0.083)
CulDis*Size (H1)	0.260*		
	(0.078)		
CulDis*Experience (H2)		0.066**	
		(0.050)	
CulDis*Tobin Q (H3)			0.301***
			(0.004)
Control variables	Y	Y	Y
N	208	209	201
Adjusted R	0.184	0.193	0.043
Year Dummy	Y	Y	Y
Industry Dummy	Y	Y	Y

This table presents results of the effects of interactions between culture distance and selected firm-specific variables on value creation of Chinese cross-border M&As. The dependent variable is acquirer CAR(-5,5). Variables are defined in Appendix. All regressions control for year and industry fixed effects. The values reported in parentheses are standard errors adjusted for heteroscedasticity and clustered by firm and year. Significant at the 1% (***), 5% (**), and 1% (*) respectively.

Table 8: Effects of Cultural Distance on Long-term Returns

	BHAR 12M	BHAR 24M
CulDis	-0.120	-0.046
	(0.145)	(0.457)
Acquirer Size	-0.050	-0.094
	(0.360)	(0.168)
Leverage	0.365*	0.095
	(0.100)	(0.715)
Tobin Q	-0.062***	-0.073**
	(0.000)	(0.023)
Cash holding	0.065	0.064
	(0.230)	(0.272)
ROA	0.063	-0.082
	(0.936)	(0.941)
Acquire PE	-0.000**	-0.001***
	(0.038)	(0.006)
Acquirer Beta	-0.110	-0.000
	(0.274)	(0.999)
SOE	-0.008	0.203
	(0.966)	(0.309)
Experience	0.196***	0.190**
	(0.000)	(0.013)
Relative Size	-0.076**	-0.119***
	(0.033)	(0.000)
Deal Size	0.000	0.000
	(0.951)	(0.861)
Relatedness	-0.137**	-0.156
	(0.015)	(0.364)
Asia Dummy	0.116**	0.070
	(0.026)	(0.276)
Language Dummy	-0.178***	-0.178*
	(0.000)	(0.057)
CashPay (0/1)	-0.053	-0.251
	(0.285)	(0.227)
Intercepts	0.325	0.445
	(0.705)	(0.627)
N	178	178
adj. R-sq	0.030	0.040
Year Dummy	Y	Y
Ind Dummy	Y	Y

This table presents results of the effects of culture distance, acquirer and deal-specific characteristics on long-term returns of Chinese CBM&A. The dependent variable is acquirer BHAR (12 & 24 months). All regressions control for year and industry fixed effects. The values reported in

parentheses are standard errors adjusted for heteroscedasticity and clustered by firm and year. Significant at the 1% (***), 5% (**), and 1% (*) respectively.

Appendix 1: Measurement of Independent Variables

Variable	Measurement
State Owned Enterprise (SOE)	Percentage of equity ownership to total equity by the central government, local government, and governmental agencies and institutions held in a Chinese firm (Lin et al., 1997).
Acquirer Beta	Beta is compiled by regressing a firm's monthly stock returns on the corresponding index returns.
Leverage	Ratio as total debt divided by the total book value of assets.
Cultural Distance (CulDis)	The difference in country scores of each of Hofstede (1980) four dimensions of national culture, namely, uncertainty avoidance, power distance, individualism, and masculinity. We measured each target country through a Euclidean version of the Kogut and Singh (1988) index.
Acquirer PE	Price to Earning Ratio (price per share divided by earnings per share)
Acquirer Size	Log of acquirers' total assets in Chinese Yuan. We also use log of sales and number of employees as additional measures for size.
Tobin's Q	Market value of equity plus book value of debt over the sum of book value of equity plus book value of debt prior to the bid.
ROA	Ratio of net income after taxes to the average total assets at book value.
Deal size (SIZE)	Log of the amount paid for the target firm.
Cash holding	Ratio of cash and cash equivalents to total assets.

Relatedness	A dummy variable taking a value 1 if acquirer and target are in related industry; 0 if otherwise.
Experience	Number of prior foreign acquisitions made at the time of purchase.
Asia Dummy(Asia)	Following the work of Kiymaz (2004), a dummy variable, taking a value of 1 if target is based in Asia and 0 if otherwise
Language Dummy	A dummy variable which takes a value of one, if the acquirer and the target use Mandarin as their language, and 0, if otherwise.

Appendix 2: Long-term Returns of Chinese CBM&A over 12-60 Months

Variable	Mean	SD	Bootstrap Skewness Z	P-value
BHAR 12 Months	-0.017	0.444	0.210	0.833
BHAR 24 Months	-0.052	0.641	-0.780	0.434
BHAR 36 Months	-0.061	0.826	-0.800	0.424
BHAR 48 Months	-0.066	1.223	-0.530	0.593
BHAR 60 Months	-0.084	1.170	-0.830	0.406

This table reports BHAR results of Chinese CBM&A. BHAR is buy-and- hold abnormal returns based on the average difference in the aggregated (compounded) performance between the sample stock and the benchmark over 12-60 months